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POLAND: Martial Law Lifted

The formal lifting of martial law—based on action by the Council of State yesterday—is largely a public relations measure to promote normalization at home and to improve relations with the West. [redacted]

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The government has passed temporary legislation to extend the term of many political and economic restrictions. Although many details are unavailable, the new laws are designed to curb workers' job mobility and employment rights and tighten controls over universities and students. [redacted]

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A parliamentary spokesman said the amnesty was partly intended to persuade underground Solidarity activists to surrender, but added that they have to give themselves up by 31 October and formally renounce any future illegal activities. A government official said that, of the 800 political prisoners eligible for immediate release, about 65 definitely will not be set free. The regime has not indicated how many prisoners qualify for reductions in sentences. [redacted]

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Premier Jaruzelski also announced to parliament the dissolution of the Military Council of National Salvation, but indicated that many military officers will continue to occupy key government and party posts. Parliament took no action to recall commissars from factories. [redacted]

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The Polish leader revealed that he will relinquish his position as Minister of Defense later this year, perhaps as early as 12 October, but pledged to remain as Premier until his "goals" are achieved. He gave no hint that he is considering leaving his party post. [redacted]

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Comment: Jaruzelski's plans for relinquishing the post of Defense Minister should not significantly weaken his political standing. It seems intended to mark the beginning of his transition to the role of a civilian leader. [redacted]

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Jaruzelski probably will turn the Ministry over to a longtime confidant, Lieutenant General Siwicki, and may rely heavily on the hierarchy of national defense committees to ensure his policies are carried out. Many party functionaries, who are already frustrated over Jaruzelski's inattention and reliance on the military, will rankle at his formal "welcoming" of the military into Poland's political institutions. [redacted]

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ITALY: Moving Toward a New Government

Socialist Party leader Craxi yesterday was designated to try to form a governing coalition and appears to be able to do so. [redacted]

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Leadership meetings of the Christian Democratic Party and the Communist Party this week revealed no intention to block Craxi. His main competitor, former Prime Minister and current Republican Party secretary Spadolini, has tacitly agreed to support a government headed by Craxi. The US Embassy reports Craxi is willing to allow the Christian Democrats, who favor stronger anti-inflation policies than the Socialists, to organize the economics ministries. [redacted]

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Comment: The Socialists' leader probably expects that the Christian Democrats, by controlling the economics ministries, will share the blame for any unpopular austerity measures. The move also could ensure the participation of the Republican Party, which had announced that it would refuse to join a government that failed to give highest priority to fighting inflation. [redacted]

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Craxi starts formal coalition negotiations today and may allow the Christian Democrats to select a new Defense Minister rather than retain fellow Socialist Lagorio in the post. He apparently wants the Christian Democrats to bear the burden of implementing the widely unpopular decision to deploy INF missiles. [redacted]

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Spadolini is a strong candidate to become foreign minister. He would almost certainly favor the maintenance of Italy's strongly pro-Alliance policies. [redacted]

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There is still some possibility that Craxi's attempt to form a government could be disrupted by differences on economic policy. Christian Democratic chief DeMita, like Spadolini, is publicly suggesting that his support for Craxi hinges on the Socialist leader's acceptance of a strong austerity program. Although Craxi probably will reach an agreement with his prospective partners and form a government, the same economic policy differences that have plagued previous coalitions are likely to threaten his government. [redacted]

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SPAIN-NATO: Socialists Mark Time on Membership

Recent statements by senior government officials indicate that Spain's role in NATO remains a major issue, but Prime Minister Gonzalez is trying for now to avoid a divisive public debate on membership. [redacted]

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Earlier this week Deputy Prime Minister Guerra publicly reiterated his personal disapproval of NATO membership and challenged Socialists who disagree with the party's official opposition to NATO affiliation to make their views public. Within a day the Madrid Socialist Federation called for withdrawal from the Alliance. [redacted]

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Comment: More anti-NATO resolutions are likely in the near future. At this point, however, Guerra probably will not be able to force pro-NATO Socialists into the open. They are likely to continue to adopt a low profile and avoid contesting NATO opponents in party forums. [redacted]

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Although Gonzalez is convinced of the value of staying in NATO, he has good reason to delay a debate on the issue. He cannot plausibly call for a reversal of Socialist policy until progress on either EC accession or the repatriation of Gibraltar allows him to argue that Spain's international position has improved. Before agreeing to a full-scale debate, Gonzalez will want to be assured of support from a broad range of party and government officials. [redacted]

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Guerra has opposed some of Gonzalez's policies in the past, only to support them in the end. If the differences between the two on NATO prove irreconcilable, however, Guerra could lead a potent opposition to Gonzalez's increasingly pro-Alliance position. [redacted]

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IRAQ: More Austerity Measures

Baghdad is [] demanding additional sacrifices from an already war-weary population as it struggles to finance the conflict and meet minimum domestic needs. []

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To reduce outlays of foreign exchange, Baghdad has delayed the issuance of import licenses for many nonessential consumer goods. It also has slashed imports of raw materials by two-thirds for private sector industries, which produce domestic consumer goods. []

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Comment: []

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[] Oil earnings this year will reach only \$7 billion, as compared with about \$9 billion last year and \$25 billion in 1980. As a result, Iraq is likely to be left with a current account deficit of \$12-15 billion, even after substantial cuts in imports. []

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Direct aid by Persian Gulf states and oil sales by them on Iraq's behalf—providing perhaps \$3-4 billion in additional revenue—will not close the gap. With foreign exchange reserves of less than \$8 billion, Iraq will have to defer at least \$4 billion in payments owed this year. []

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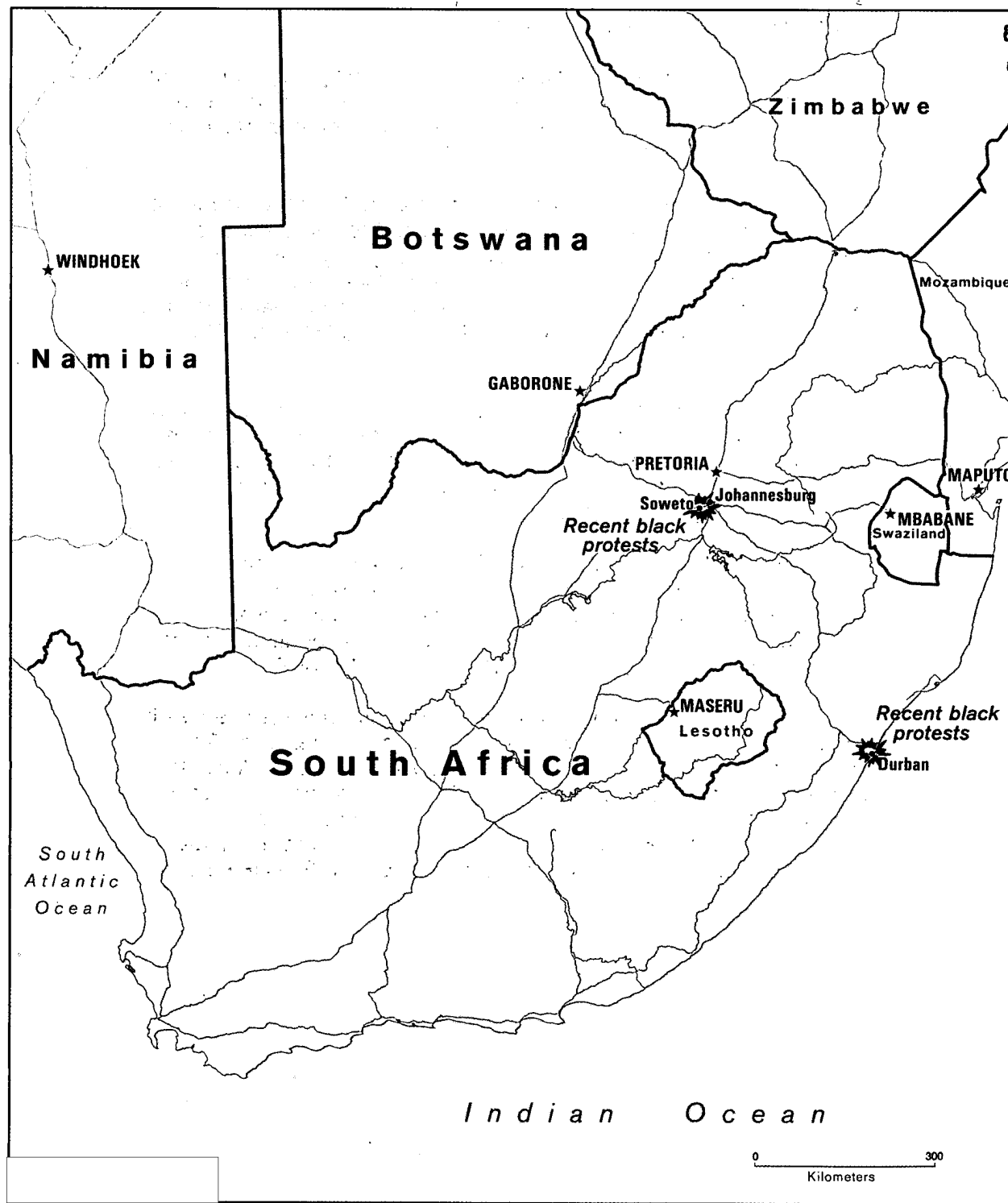
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SOUTH AFRICA: Black Unrest

The government is trying to contain and reduce growing tensions in several black townships where demonstrations have already led to violence. [REDACTED]

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Police used tear gas on Monday to disperse black students boycotting classes in Soweto near Johannesburg. More than 2,000 pupils, supported by their parents, are protesting the firing of two black teachers and the appointment of an unpopular white principal. The US Embassy reports that these demonstrations follow a period of greatly increased student activism in the township. [REDACTED]

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The government also is concerned that the 67-percent increase in rents scheduled to go into effect on 1 August in black townships near Durban may cause renewed unrest. Sporadic demonstrations, riots, and vandalism have occurred there to protest the proposed rent hikes, the murder of a local black leader, and the execution of three convicted ANC terrorists. [REDACTED]

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Comment: The police in Soweto have arrested five students on charges of leading the school boycotts. Student protests there set off widespread riots in 1976, and the police will move quickly to quell any new demonstrations that show signs of spreading. [REDACTED]

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The government probably will try to head off additional violence in the Durban area by reducing or postponing the rent increases. Blacks in these townships are already suffering from high unemployment and inflation and would be likely to react violently if the increases were imposed. [REDACTED]

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NICARAGUA-HONDURAS: Naval Incident

Nicaragua is using a recent clash in the Gulf of Fonseca to draw attention to the presence of US Navy ships in the area. Managua's protest note, which claims its territorial waters were violated when two Honduran craft attacked one of its patrol boats, also points out that US ships are off its coast.

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Comment: The naval incident—the first since April—will add to tensions along the border.

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More incidents are likely as Honduras continues its efforts to interdict the arms flow from Nicaragua to the Salvadoran insurgents.

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USSR: Disruption at Nuclear Reactor Factory

A report in *Pravda* this week indicates that a recent major disruption had set back production at the "Atommash" complex in Volgodonsk, which is one of the USSR's showcase producers of nuclear reactor components. Politburo candidate member Dolgikh visited the complex a few days ago to deliver a speech chastizing the plant's management and workers. Officials in the ministry responsible for negligence at the factory reportedly were severely punished. According to a TASS report, the Politburo last week expressed its concern over the dependability and safety of nuclear power stations and problems at "Atommash" and ordered the creation of a new state committee to regulate safety standards in the nuclear power industry. [REDACTED]

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Comment: The disruption evidently did not involve a nuclear accident, because "Atommash" is an equipment manufacturing plant. "Atommash" plays an important role in the USSR's nuclear energy program, and major production problems could seriously hamper the Soviet nuclear program in coming years, especially if much of the plant's imported equipment is involved. [REDACTED]

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USSR-MADAGASCAR: Reduced Soviet Presence

The USSR has reduced its military adviser presence in Madagascar from more than 200 to only 39 men during the past year at the government's request. The remaining advisers are radar technicians, communications specialists, and pilots and maintenance personnel for Madagascar's 12 Soviet-supplied MIG-21s. The Army, the largest and most effective of the Malagasy forces, now has few, if any, Soviet advisers. Meanwhile, France has agreed to train Malagasy officers in France and provide some equipment.

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Comment: Madagascar has a burdensome military debt to the USSR and has to pay the salaries and expenses of the advisers, who help maintain and operate equipment that now is largely kept idle by shortages of fuel and spare parts. The Malagasy are concerned that the reliance on Moscow for military aid could restrict their independence and hope to diversify their sources of assistance. The Soviets almost certainly are eager to maintain an advisory presence and may relax their terms for future military aid. France's resources are overextended, however, and it is unlikely to replace the USSR as Madagascar's primary military supplier.

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